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SUBJECT: HONG KONG FINANCIAL SECRETARY PRAISES USG'S
FANNIE/FREDDIE MOVES, FORECASTS SLOWER GROWTH

REF: HONG KONG 1679

¶1. Summary: Hong Kong's Financial Secretary John Tsang told local Chinese bankers on September 9 that he supports the USG's assumption of control over Freddie Mac and Fannie Mae. He said the move calmed the concerns of global investors holding debt instruments issued by Fannie/Freddie, but he forecast that global financial market turmoil would continue. Tsang expects global economic growth to slow, in part due to elevated commodity prices. Local financial media and market analysts also opined that Hong Kong's economic prospects will suffer from deteriorating global economies. At a CG-hosted meeting with AmCham officials on September 10, leading U.S. businessmen based in Hong Kong described "tough" market conditions, and the head of Hong Kong corporate banking at a large U.S. investment bank said companies in Hong Kong expect no material improvement in the local economy in 2009. The Hang Seng Index closed down today (September 10) by 2.4 percent, breaking the psychologically important barrier of 20,000. End summary.

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HKG's Primary Finance Official Sees Troubled Times Ahead

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¶2. Speaking at a September 9 dinner hosted by the Chi Tung Association (a long-standing group of local Chinese bankers), Hong Kong's Financial Secretary John Tsang said the USG decision to assume control over the operations of Fannie Mae and Freddie Mac and stand behind their debt would "help calm market concerns" about the solvency and scale of losses at the two mortgage giants. He said the move would also "restore the confidence of various central banks" with regard to debt issued by Fannie/Freddie. According to the Hong Kong Economic Journal (HKEJ), an independent daily Chinese language newspaper, Tsang reassured the Hong Kong bankers that the HKG would closely monitor the latest developments in global financial markets, while also assessing the impact on Hong Kong from the Mainland's macroeconomic adjustment measures. Tsang forecast that the worldwide turmoil in financial markets would persist, with global economic growth continuing to slow. He also said elevated commodity prices would remain a drain on global purchasing power, thereby resulting in decreased demand for Hong Kong's export products.

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Market Analysts Not Optimistic About HK Economy

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¶3. An editorial published in the HKEJ on September 10 warned investors to restrain their optimism about the USG's placement of Fannie/Freddie under government control. Mirroring recent comments by local economist Andy Xie (reftel), the editorial said that while the USG's action helped avoid a near term "financial disaster,"

Fannie/Freddie's ultimate losses and the after-effects of the USG takeover are currently inestimable. The editorial stated that the combination of inflation pressures and "enormous levels of bad debt" in the United States would exacerbate an economic recession there. Although the USG's decision to backstop the debt of Fannie/Freddie has dissipated local concerns with regard to Fannie/Freddie debt held by Mainland Chinese banks, the HKEJ used the Fannie/Freddie turbulence to urge Mainland banks to boost their transparency with regard to their individual holdings of foreign financial assets.

¶4. In an interview with the Oriental Daily News (Chinese language daily newspaper) published on September 10, Hong Kong-based Union Bank of Switzerland (UBS) economist Jonathan Anderson stated that he expects the U.S. and European Union economies to slow. He said global stock markets would likely continue to perform poorly over the next six months. Anderson also said he is "not optimistic" about economic prospects in Asia for the remainder of 2008.

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HK AmCham Leaders Brief CG on "Tough" Market Conditions

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¶5. At a September 10 meeting the Consul General hosted with AmCham officials, the head of HK corporate banking at a large U.S. investment bank said that companies in Hong Kong don't expect business conditions in 2009 to be much better than in ¶2008. Corporate staffing in HK would likely be flat to slightly down through next year. The regional head of a large U.S. express delivery company referred to current market conditions as "tough," while the president of a major

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international shipping firm said the sea freight business has been "heavily impacted by the U.S. (economic) slowdown."

¶6. The Hang Seng Index (HSI) continued to lose ground on September 10, closing down 2.4 percent at 19,999.8. The market was influenced by the substantial decline in U.S. stock market indices overnight, as well as concerns about U.S. investment bank Lehman Brothers' ability to raise capital.

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